

Workplan for hospital inpatient payment issues

ISSUE: The payment system for acute inpatient services is the most mature of Medicare's PPSs, and yet several of the system's components may warrant refinements. In addition, it is important to ensure that payments are equitable among broad classes of hospitals, such as teaching and non-teaching, rural and urban, and specialty and general hospitals.

KEY POINTS: Over the course of the current analytical cycle, we will address:

- The payment update for fiscal year 2005
- Extent and implications of growth in specialty providers
- Hospital cost allocation and charge setting practices
- Graduate medical education, indirect medical education, and disproportionate share payments, and
- Labor markets and other wage index issues.

ACTION: No decisions are required, but staff would appreciate feedback on the workplan.

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Workplan for hospital outpatient issues

ISSUE: The outpatient PPS has been operating for three years. As a new payment system, it has experienced some challenges, such as swings in payment rates and difficulties in implementing new technology provisions. MedPAC has made payment update recommendations for the outpatient PPS and looked at issues such as payment for new technology. Refinements to other parts of the payment system may be warranted.

KEY POINTS: During this meeting we will discuss:

- Background information about the payment system, including an overview of spending trends and the distribution of payments and volume by type of service;
- Analyses planned to support our update recommendation; and
- Planned analyses of outlier payments under the outpatient PPS and hospitals' cost-allocation and charge-setting practices.

ACTION: Staff would appreciate feedback on the workplan.

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New geographic definitions and the hospital wage index

ISSUE: Recent changes in OMB definitions of Metropolitan Statistical Areas (MSAs) could require some rethinking of the geographic boundaries used in the hospital wage index calculation. For example, what issues are raised by the new Micropolitan Statistical Areas (μSAs) defined by OMB? Wage index values could be calculated for each separate micropolitan area, or they could be combined in some way, or the current boundaries could be maintained. Analyzing these issue will require thinking through the goals of the wage index system and establishing criteria for judging whether the system is meeting those goals.

KEY POINTS: This June, the Office of Management and Budget (OMB) revised the definitions of the MSAs. These areas are used by the Medicare program to define labor market areas for the hospital wage index, which is used in prospective payment systems for several sectors to adjust for differences in input prices. The program will need to analyze and consider how to reflect the new definitions in calculating wage index values and incorporating newly defined statistical areas such as the μSAs. As boundaries and wage index values change, the demand for reclassification (a process whereby a hospital in one area receives the wage index in a neighboring area) could change.

In the short term, the Commission needs to understand the new definitions and how they might be reflected in the wage index. In the longer term, the Commission may wish to reexamine the geographic areas used to define labor markets and the wage data used to measure input prices.

ACTION: At this meeting, staff seek to alert the Commissioners to the new geographic definitions and some of the issues those changes may raise.

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